

Exploring alternatives to AWP-pricing for Medicare-covered drugs

ISSUE: The current method by which Medicare pays for drugs covered under Part B leads to payments that far exceed providers' costs. What steps has CMS taken to change Medicare's payment method? What methods are being used by other payers to pay for these drugs?

KEY POINTS: Staff will describe recent steps taken by the Centers for Medicare and Medicaid Services (CMS) to change the way Medicare pays for Part B drugs. We will also present information on the way private payers set payment rates for physician-administered drugs and describe some related developments in the pharmacy distribution market.

- Physician-billed injectable drugs represent the most rapidly growing portion of the public and private pharmaceutical market. Advances in biotechnology are likely to ensure that this trend continues.
- Most proposed methods to reform the payment system for these drugs depend upon administered pricing or competition among pharmaceutical manufacturing or distributing entities to reduce prices.
- As expenditures have increased, many payers, including Medicare, have begun to reassess their payment methods.
- Most private payers use payment methods for these drugs based upon fixed percentages of the Average Wholesale Price (AWP) but many have developed or are in the process of developing payment mechanisms based on selective contracting for at least some categories of drugs.
- Specialty pharmacies and pharmacy benefit managers (PBMs) have developed payment models designed to manage utilization and expenditures for physician-administered drugs.
- Implementation of these new payment methods are still in an early stage.

ACTION: No decisions are required at this meeting. Staff would appreciate comments on the information presented and any suggestions for next steps.

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